

# Office of the State Controller

## Linda Combs



## **Supplemental State Equipment Requirements**

### **Capitalization/Classification Policy**

#### **Effective Date:**

7/1/95  
6/29/98, Revised  
1/22/07, Revised  
7/1/09, Revised

#### **Policy:**

A capital asset is property, such as land, land improvements, easements, buildings, equipment, works of art and historical treasures, and infrastructure, with a cost equal to or greater than \$5,000 and a useful life of two or more years. Capital assets are acquired for use in normal operations and are not for resale. These assets may be subject to depreciation (see [Depreciation](#)). Exceptions to the \$5,000 capitalization threshold will require written approval by the Office of the State Controller (OSC).

Assets costing below \$5,000 are expensed; they are not capitalized nor depreciated for financial reporting purposes. A physical inventory will be taken of inventoried assets at least once a year at the same time the capitalized fixed assets are inventoried (Physical Inventory).

Intangible assets, which are generally classified as capital assets, have a separate capitalization threshold (see [Intangible Assets Policy](#)).

#### **Accounting Guidance:**

Costs incurred to keep a fixed asset in its normal operating condition that do not extend the original useful life of the asset or increase the asset's future service potential, are not capitalized. These costs are expensed as repairs/maintenance (see [Maintenance](#)).

According to GAAP, capital assets should be recorded at historical cost or estimated historical cost. Cost includes purchase price or cost of construction plus any other charges incurred to place the asset in its intended location and condition for use. Examples of other charges include, but are not limited to:

- legal and title fees
- appraisal and negotiation fees
- surveying fees
- other closing costs
- damage payments
- land-preparation costs
- demolition cost
- architect and accounting fees
- insurance premiums during the construction phase
- transportation charges
- interest cost incurred during construction of the asset

Donated assets should be recorded at their fair market value on the date donated. The fair market value is the estimated amount at which the asset would be exchanged between a willing buyer and seller when neither is forced into the exchange. Both parties should have knowledge of all facts and consider it an equitable exchange.

In-house resources such as labor, materials, and supplies used from General Services should also be included as part of the cost of the asset. Capitalize the costs as if outside sources were used.

Once capital assets are recorded, any adjustment to the values or useful lives requires management authorization.

**Classification:**

According to the Governmental Accounting Standards Board (GASB), the classification of capital assets depends upon the funds used to purchase them:

"A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds (and similar component units) should be reported only in the statement of fiduciary net assets. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets" (prepared by OSC). (GASB Sec 1400)

[http://www.ncosc.net/sigdocs/sig\\_docs/documentation/policies\\_procedures/sigCapitalizationClassification\\_Pol.html](http://www.ncosc.net/sigdocs/sig_docs/documentation/policies_procedures/sigCapitalizationClassification_Pol.html)

## Physical Inventory Policy

**Effective Date:**

7/1/95

1/22/07, Revised

**Policy:**

A physical inventory of capitalized and inventoried fixed assets is taken to verify that assets recorded are physically located in an agency. Inventories are taken at least annually.

The inventory is taken by someone who does not have custody of the assets, nor responsibility for receiving, checking in, tagging, and recording the assets (see [Separation of Duties](#)).

If a capitalized or inventoried asset is missing at inventory, the Missing Asset Form is completed to document the reason for the missing asset (see [Missing/Stolen Assets](#)).

It is recommended that a physical inventory of capitalized assets and inventoried items be taken each time there is a change at a management or supervisory level that has responsibility for the assets. The out-going and in-coming supervisor/manager should sign the Physical Inventory Worksheets. The signatures indicate they both know where the assets are located and that the count is accurate. It is kept on file in accordance with internal policies.

[http://www.ncosc.net/sigdocs/sig\\_docs/documentation/policies\\_procedures/sigPhysical\\_Inventory\\_Policy.html](http://www.ncosc.net/sigdocs/sig_docs/documentation/policies_procedures/sigPhysical_Inventory_Policy.html)